

Annual economic report : China 2005

1 Appreciation of the economic problems and issues

The wide-ranging policy reforms of the last 25 years have thrown China on a new path of economic openness. China's entrance to the WTO in December 2001 symbolises a new era of global market integration and increasing exchanges between the largest emerging market and the rest of the world. However, reforms must continue as the fast pace of development of China has brought about new challenges for the country and its economy.

The **high growth rates** that China has experienced over the past few years (cf. annexe 2) have contributed to the increase in personal income and to a certain extent the reduction of poverty. However, a difficult balance needs to be reached between cooling the overheating economy amid fears of a hard landing while producing enough new jobs to absorb the extra labour force. For the past year, China has been making macroeconomic adjustments aiming to reduce annual economic growth to 7 or 8 percent. There has been a shift from administrative measures to market-based ones: interest rate increases, reduction and rationalisation of bank lendings and adapting to a more flexible exchange rate system.

The most significant structural reform so far in 2005 was probably the **exchange rate system reform** which had been much desired by China's global economic partners for some time. On 21 July 2005 the RMB's decade long peg to the USD was transformed to a managed float against a basket of currencies. The exchange rate is now permitted to float within a band of +/- 0.3% against the USD and by up to 1.5% against other currencies each day. At the same time the exchange rate to the USD was revalued by 2.1 % to 8.11 yuan per USD.

The ongoing reform of the **state owned sector** still has some way to go. State owned enterprises (SOE) have improved in performance, but over 35% of all state-controlled companies are still not earning a positive rate of return and one in six has negative equity. Many small SOE have been closing down or selling their assets to private and foreign buyers as the government focuses on its involvement to larger state-firms in key industries. The most recent development in private sector reforms is an opening up to private businesses of a number of previously restricted areas (for example in most areas of the industrial sector, bar mining and utilities, and in distribution). This shows that another step has been taken towards creating **a more efficient and more market-oriented economy**.

Foreign banks (including CSFB and UBS) have in recent times shown a growing interest in investing in China's state commercial banks. UBS in particular announced a strategic partnership with Bank of China – one of the four largest state-owned banks – in September 2005.¹ This may help in the long and **delicate reform of the banking sector** which is fraught with non-performing loans, especially if the foreign banks get to take part in the state banks' policy and strategy. The China Construction Bank was the first of the large state-owned bank to list its shares with overseas investors with an initial public offering on 27th October 2005. This is seen as a positive step in the reform of the banking system, in particular since state-owned banks are expected to follow suit and go public in the next couple of years.

Further, to ensure continued economic development and a positive evolution of the business environment in China, reforms such as the establishment of a modern legal framework for businesses (including a functioning bankruptcy system) and the effective enforcement of the set of laws and regulation for international property rights are required.

In the Administration's most recent, 11th **five-year plan** (2006-2010), it projects to maintain high economic growth while tackling growing disparities between rural and urban incomes (the benefits of

¹ UBS has also taken control of Beijing Securities, a mid-sized brokerage company this autumn.

economic development have not been distributed evenly across the country, leading to frequent social unrest, in particular in rural areas) and paying attention to issues regarding environmental and resource constraints.

2 International and regional economic agreements

2.1 Country's policy and priorities

China as a member of the World Trade Organisation (WTO)

China's accession to the WTO in 2001 has had and will continue to have vital implications for the furthering of the Chinese economic system reforms and the development of the country altogether. It is widely recognized that **China has fulfilled most of its WTO commitments** – usually on time and sometimes ahead of schedule. While China has entered its fifth and final year of WTO-commitments' implementation on 11 December this year, there are concerns that trade barriers are being replaced by more subtle barriers, concealed by the challenges of implementation and enforcement of WTO regulations.

A lack of compliance to WTO rules is however clearly noted in areas such as agricultural product imports, market access for financial services, discriminatory tax practices against foreign companies (VAT), as well as lack of transparency in trade regulations, of distribution rights provisions for foreign firms and of intellectual property rights enforcement. In the first four years as a member of the WTO, China has also been the target of **numerous anti-dumping complaints**.

So far, China has leant towards being an **advocate of free-trade** within the WTO, demonstrating a strong engagement in issues typically affecting emerging markets – also in the context of its involvement with the Group of 20 developing countries (G 20) led by Brazil – such as the liberalisation of agricultural markets. China wants to give the image of an active WTO-member.

China-ASEAN Free Trade Agreement (CAFTA)

After its successful accession to the WTO, China turned itself to ensuring the conclusion of regional free trade agreements. In November 2002, China began official negotiations with ASEAN and signed a framework defining the liberalisation of trade in several steps to lead to the establishment of CAFTA by 2010 for the original ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) and by 2015 for the newer and less developed members (Cambodia, Laos, Myanmar, Vietnam). The framework agreement states the objectives of the group with China and **aims to lower bilateral tariffs to 0-5% on most goods and eliminate non-tariffs barriers**. However, it doesn't detail the FTA's institutional set-up, relying on future consultations. The negotiations ended in October 2004 and the partners signed several trade pacts a month later at the ASEAN-meeting in Vientiane, Laos. The tariff reduction programme was launched in July 2005, the start of a comprehensive implementation of CAFTA.

While China continuously tries to convince the ASEAN countries of the mutual benefits of closer trade relations, the latter feel **growing concern at perceiving the suction-effect** that the industrial site that China is, has on attracting foreign direct investment. Meanwhile, Japan and the USA also see their position as regional economic super-powers challenged and consequently put an effort to reach a free-trade agreement with the ASEAN-countries themselves.

It follows from China's tightening ties with ASEAN that the country would **press further regionalism**. China has supported the transformation of ASEAN+3 (China, South Korea and Japan) into the East Asian Summit (EAS), which has welcomed Australia, New Zealand and India to the group during its inaugural meeting on 14 December in Malaysia. Further, China is hoping to host the second EAS in 2006.

Other international free trade negotiations

- China and Chile have signed a FTA at the APEC-Summit in Busan, South Korea, in November 2005, (only a year after negotiations started) which will come into effect during the first half of 2006 and will lift customs fees on the trade of most products
- China and New Zealand are negotiating an FTA since December 2004

- The China-Australian FTA-negotiations were launched in April 2005, but due to substantial stumbling blocks, namely in agriculture and industrial goods, are making relatively slow progress
- China has also started negotiations on a bilateral FTA with the Gulf Cooperation Council (GCC) and plans to follow suit with MERCOSUR, India and the Southern African Customs Union (SACU)
- There are also possibilities of future negotiations with South Korea and Pakistan

2.2 Outlook for Switzerland (potential for discrimination)

In the bilateral agreement to China's WTO-accession of 26 September 2000, the People's Republic had agreed to make certain concessions towards Switzerland in the fields of insurance licences, inspection services and the import of watches. In the beginning, these privileges have only partly been taken advantage of. Economic difficulties of companies' head-quarters in Switzerland have played a role in this, as well as in determining whether to reduce temporarily or give up completely the work in the Chinese market. On the other hand, **some sectors have benefited from such easing of market entry rules**: for example, representing the reinsurance sector, Swiss Re officially opened the company's China branch in December 2003, and the Swiss watch industry's zero-tariffs-imports have increased continually, as is shown by the bilateral trade statistics in annexe 4. Swiss financial intermediaries have also strengthened their foothold in mainland China while Hong Kong remains the leading financial centre in the region as their continuing strong presence in the SAR shows.

Iceland has become the first European country to launch an FTA feasibility-study with China. This was done in May 2005, after Iceland recognized China's full market economy status. During his bilateral economic mission in July 2005 the Swiss Minister of Economy, Joseph Deiss, presented a proposal on behalf of Switzerland and the other three members of the European Free Trade Association (EFTA) on whether China was prepared to consider a feasibility study about an FTA with EFTA. In subsequent meetings the Chinese side stated that the idea of an **EFTA-China FTA "should be considered very seriously"** but that it faced serious resource-constraints due to the Doha Round and an increasing number of bilateral free trade negotiations. Seco-figures show an important upturn above average in bilateral trade figures following the conclusion of recent FTAs. As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or EFTA-China FTA plans materialize.

3 Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

In 2004, Chinese foreign trade, once more, developed very heartily considering the global economic situation. Chinese imports and exports grew to a total of USD 1,154.7 billion, an increase of 35.7% over 2003, placing the country 3rd in the leading trading countries behind the United States and Germany. China's exports grew by 35.4% to USD 593.37 billion last year. Meanwhile, imports increased 36% to USD 561.42 billion. This corresponds to a **trade surplus of USD 31.95 billion**. This lustrous result matches an increase of 25.1% over the previous year and has surpassed the expectations of many experts.

Analysts have anticipated the country's trade surplus to shrink for some time – attributing factors would be China's accession to the WTO (reduction of custom duties), the considerable decrease of non-tariff barriers of import requirements, the acceleration of the inland economic restructuring and the strong inland demand for high-technology, machines, energy and raw materials. In the first seven months of 2005, import and export levels amounted to USD 357.8 billion and USD 407.9 billion, an increase of 13.7% and 32.0% respectively over the same period in 2004.

The **leading Chinese product export categories in 2004** were "machinery, mechanical appliances and electrical equipment", "textiles and textile articles" as well as "products of the chemicals and alike industries" and reached a 60.9% share of the total volume (USD 361.17 billion altogether).²

² Machinery, mechanical appliances and electrical equipment: share of total 41.8% and USD 247.81 billion in 2004

"Machinery, mechanical appliances and electrical equipment", mineral products, and "products of the chemicals and alike industries " dominate Chinese imports with a 61.2% share of the total (USD 343.71 billion).³

China's most important export markets are the USA (2004 share of total exports: 21.06%), the EU-25 (18.06%), Hong Kong⁴ (17%), Japan (12.4%) and the ASEAN-States (7.23%). The most important countries and/or regions of origin from which China imports products are Japan (2004 share of total imports: 16.81%), the EU-25 (12.49%), Taiwan (11.54%), the ASEAN-States (11.22%), South Korea (11.09%) and the USA (7.96%).

In the first nine months this year Chinese exports to the EU-25 has increased 37.2 % compared to the same period in 2004 to USD 103.40 billion. **The imports from the EU-25, however, have only gone up a subtle 3.3 %, reaching USD 54.38 billion.** This significant increase of the EU's trade deficit with China is one of the main explanations for the protectionism experienced this summer during the textile trade disputes over clothes garments. In the same period of time the imports out of and the exports into Switzerland grew, according to Chinese statistics, about 7.7% (USD 2.85 billion) and 34.8 % (USD1.46 billion) respectively.⁵ **The share of bilateral trade between the EU-25 and China until September this year was 15.5% and that of Switzerland 0.4%.**

The problem of the countless state-owned enterprises (SOEs), which are inefficient to run and flood the market with overproduction goods, changes nothing to the fact that China has expanded to a dominant position in nearly all areas of industrial production. As opposed to the classic developing countries with cheap industrial production, **China has not only the advantage of lower costs, but more importantly of a higher technical competence.** China's manufacturing industries have until now mainly exported low value consumer goods (textiles, clothes, shoes, toys), but Chinese firms and businesses with foreign participation are increasingly producing higher-standard products (home appliances, consumer electronics, computers, mobile phones, etc.)

As a result, industry suppliers of industrialised countries are under pressure to either lose their share of the market or to produce in China (one such example is the automotive suppliers' industry). The WTO-accession has accelerated this development and the SARS-crisis made apparent how far the integration of China in world trade has already gone. Simultaneously, the **dependence of the world on China's role as an essential part of the world supply chain has become obvious.**

There has been a strong increase in tension between western importers and China following the ending of the WTO-Agreement on Textile and Clothing on 31 December 2004 and the subsequent strong rise in Chinese textile exports⁶. **The EU and China have agreed on textile import quotas in September and the USA has reached such a deal in November this year.** China does not expect trade protectionism from other parts of the world to decrease as it believes it will hit a trade surplus of USD 90 billion for 2005.

Textiles and textile articles: share of total 15.0%; USD 88.77 billion in 2004

Products of the chemicals and alike industries: share of total 4.1%; USD 24.59 billion in 2004

³ Machinery, mechanical appliances and electrical equipment: share of total 41.6%; USD 233.71 billion in 2004

Mineral products: share of total 12.0%; USD 67.13 billion in 2004

Products of the chemicals and alike industries: share of total 7.6%; 42.87 USD billion in 2004

⁴ Hong Kong is an important economic area and international trade partner in its own right but plays a particular role as a port of trans-shipment for Chinese exports, which clearly shows in the trade statistics of the special administrative region (SAR).

⁵ Cf. Annexe 3, which reproduces figures of the Ministry of Commerce (MofCom). Annexe 4 and section 3.2.1 about bilateral trade Switzerland – China / Hongkong use data gathered by the Swiss customs authorities.

⁶ China's clothing exports to the European Union rose by 40 % in the first eight months of the year, reducing imports from other Asian and African exporters, as reported by the Financial Times on 3.12.2005. Burma and the Philippines were the worst hit Asian countries, down 54.4% and 41.4% respectively. Also falling were South Korea, by 28.6%; Thailand by 15.1%, Pakistan by 16.3% and Bangladesh by 9.3%. African, Caribbean and Pacific exports to the EU dropped 24% in value and 28.1% by volume.

3.2 Bilateral trade

3.2.1 Trade in goods⁷

Swiss exports to mainland-China (according to Swiss customs data) have already shown high growth rates for some years, and the year 2004 followed this trend: Swiss exports to China grew 25.03% to CHF 3.08 billion and imports went up 17.12% to CHF 2.83 billion – a trade surplus of CHF 0.25 billion.⁸ However, **in the first nine months of 2005** (compared to the same period last year) there has been a **slighter increase in exports to China (4.24%) than in imports (11.19%)** leading to a minute trade deficit for Switzerland of CHF 54 million. That said, when combining the data for the trade between Switzerland and Hong Kong with that of China, for the first nine months of this year, there is still a **significant CHF 1.9 billion surplus for Switzerland** (down from CHF 2.5 billion in the first three quarters of 2004).

The most important imports of goods out of China are machinery, apparatus and electronics (share of import in 2004: 25.4%), textiles, apparel and shoes (24.0%), precision instruments, watches and jewellery (2004:13.8%), chemicals and pharmaceuticals (10.2%). Exports are dominated by machinery, apparatus and electronics (share of exports 2004: 50.9%), chemicals and pharmaceuticals (2004: 16.2%) and precision instruments, watches and jewellery (2004: 16.0%).

Swiss exports to China saw in 2004 a CHF 162 million (11.7%) increase for machinery, apparatus and electronics, a CHF 135 million (149.4%) increase for precious metals, stones and gemstones, a CHF 130 million (35.4%) for chemicals and pharmaceuticals, and a CHF 120 million (32.2%) for precision instruments, watches and jewellery. The strongest increases in imports from China were also noticed in the “machinery, apparatus and electronics” and “precision instruments, watches and jewellery” categories (CHF 142 million or +24.6% and CHF 100 million or +34.5% respectively). So far in 2005 (Q1-Q3) there has been a notable 60.7% increase of imports in the sector of chemicals and pharmaceuticals compared to the same period the previous year and a 32.2% increase in exports in the same sector.

China is a priority country in the framework of Swiss exports promotion and, as can be seen by the areas which experienced strong increases in exports in 2004 (machinery, chemicals and pharmaceuticals, precision instruments, watches and jewellery). **Switzerland has a great comparative advantage in sectors which matter to Chinese importers.** One example is the constant and increasing demand for advanced technology and production equipment linked to the progress of China’s manufacturing sector and its development of infrastructure across the country. This sector offers and will continue to offer excellent prospects to Swiss producers of machinery and manufacturing instruments.

The shift of life-style and consequently of consumer behaviour among wealthier urban citizens to a more westernised consumption pattern has created an **increasing demand for established and high quality brands and luxury items** – from packaged foods to branded clothes to luxury watches. On the one hand, this is an excellent prospect for Swiss brands and goods to tap in a booming market; on the other, **pirating reduces the potential of this market** and bites into profits of various industries. The opening up of the domestic retail banking market to foreign invested financial institutions in December 2006 (the end of the 5 year WTO-rules implementation timetable), should also create opportunities for Swiss financial services. Reliable figures on bilateral exchange in the service industries are currently unavailable.

In their answers to a **Seco-survey** in November 2005, carried out by the Swiss Embassy, over half of the Swiss companies doing business in China estimated that the **business climate is overall positive**. They often mentioned that the Chinese market is important and growing and becoming more and more attractive as there are improvements in the business environment (in particular for services, for which the market is still opening). However there was also mention of the **challenge that China sets for foreign companies**: the climate is extremely competitive, there are still many restrictions, the

⁷ The figures discussed in this section can be found in annexe 4.

⁸ The picture looks even brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 6.46 billion last year and imports in Switzerland to CHF 3.06 billion. The exports to China (incl. Hong Kong) made up 4.77% of global Swiss exports, meanwhile bringing China (incl. Hong Kong) to the position of Switzerland’s most important export market and trade partner in Asia, ahead of Japan. Exports from Switzerland to Taiwan went up 12.2% to CHF1.33 billion, however imports decreased 13.8% to CHF 0.521 billion.

regulatory environment is complicated and, for the future, costs are increasing. There were also a few complaints from SME that their **problems are not being taken seriously** by the Chinese authorities, in particular in IPR-protection. Further, many companies see the **East and South-East Asian region as an important market for goods produced in China** with significant potential especially if China eases the logistics channels for export.

4 Direct investments

4.1 Development and general outlook

The Chinese government puts a lot of effort at every level and is very successful in attracting foreign investment. In many fields it was only following the WTO-accession that foreign investors were allowed to carry out direct investments, in particular in the sector of financial services. **Foreigners are still excluded or confined to a minority participation in particularly sensitive or strategic sectors** of the economy. The withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses.

Due to the underdeveloped state of Chinese stock markets and because the national currency isn't fully convertible, **foreign investment is 90% direct investment**, and very often greenfield-investment. This system constrains foreign investors but leaves China less vulnerable to attacks on international financial markets as it makes capital withdrawals from direct investments more difficult to arrange. The acquisition of state owned enterprises (SOEs) by foreign investors was made possible under certain conditions in the spring of 2004. The goal is to create an actual market for mergers and acquisitions (M&A). However, as a recent OECD-project on cross-border mergers and acquisitions, co-financed by Seco, has shown that **"the regulatory framework for cross-border M&A remains fragmentary, over-complex and incomplete."**⁹

The loosening of legal regulations and the awareness that various joint ventures (JV) have experienced difficulties with their Chinese partners has influenced more and more foreign investors to tend towards establishing wholly foreign owned enterprises (WFOE). The transformation of an existing JV into a WFOE is time and again attempted, but is in general constrained by considerable administrative and high (compensation) costs. After measures to administrate international investment in the area of trade and changes to the laws on foreign trade came into force on 1 June and 1 July 2004 respectively, **foreign investors have been authorized to set up and run WFOE in the areas of distribution, retail trade and wholesale since 11 December 2004.**¹⁰

Although the Government acknowledges the crucial importance of the private sector for the further development of the Chinese economy, in particular in creating employment, **private businesses, with or without foreign participation, still feel put to a disadvantage compared to SOEs.** Instead of having freedom of trade, it is still standard practice in China that any business activity remains unauthorized until it is explicitly and officially approved of. Thus many firms practice their activities in a legal grey area intentionally brought about or at least tolerated by the local authorities, but this understanding can be ended at any time.

Last year, foreign businesses invested USD 60.6 billion in China. This corresponds to a growth of 13.3% over the previous year. The total value of the newly agreed upon investment projects grew by 33.4% to USD 153.5 billion over the last year and has created high expectations for the coming years. The number of foreign projects approved by the Chinese authorities has increased by 6.3% to 43'664. In the first three quarters of 2005, **China's actually utilized FDI totalled USD 43.2 billion, down by 2.1% as compared with the same period of last year**, but still maintained its large scale. The stronger manufacturing capacity, mainly the result of surging FDI inflows in the past few years, has become a major driving force behind China's export surge.

Altogether, the transacted foreign direct investment (FDI) to China amounted to USD 562.1 billion in 2004. Since the beginning of the policy reforms, over 400'000 businesses with foreign participation have established themselves in China. However, a considerable number of them have also in the

⁹ China's policies towards cross-border mergers and acquisitions, background report, OECD, Paris, to be published in March 2006.

¹⁰ Cf. Administrative method for foreign investment in the commercial sector of the PRC:
http://www.prorenata.com/consulting_services/investment/en_foreign_investment_areareg.pdf

meantime shut down. Over 23 million Chinese representing about 10% of the urban labour-force work in businesses with a foreign participation.

China's industrialisation is mainly fuelled by foreign businesses' investments, in particular out of Hong Kong and the ASEAN region. 31.33% of FDI came from Hong Kong in 2004, making it by far the most important national origin. A considerable proportion of the investments from Hong Kong come from businesses that left China in the first place for tax purposes and now reinvest to the mainland. The same cycle occurs with the Virgin Islands (the second most important national origin of investment with 11.1% of the 2004 total). South Korea (10.31%), Japan (8.99%), the EU-15 (6.99%), the USA (6.5%) and Taiwan (5.14%) are also important foreign investors. Last year, Switzerland's share of FDI in China amounted to 0.33% (USD 203 million).

4.2 Bilateral investment flows

At present, about 270 Swiss firms with over 600 branches are represented in China, employing almost 55'000 people.¹¹ Estimates put the total amount of direct investments at about 5 billion Swiss francs, making Switzerland the fifteenth most important national origin of FDI. However, the precise amount is unknown, since inquiries on the matter by the Swiss Embassy in Beijing were largely ignored by the enterprises. Following indications of the Ministry of Commerce (MofCom), China granted 88 projects with Swiss participation in 2004 (82 in 2003). In 2004, the actual Swiss FDI amounted to USD 203 million – an increase of 12.15% over 2003. This year, the total number of Swiss direct investment projects registered by MofCom stood already at 82 by the end of August with the level of actual investment reaching USD 110 million.

Switzerland has economic agreements with China regarding investment protection, mixed credits and avoidance of double taxation. **Representative data about the success rate of Swiss or other FDI does not exist** because the companies avoid disclosing such information. However, according to a recent study by the Taiwanese administration, 41.7% of the 1'644 businesses that had invested in China surveyed answered that they had lost money or just about broken even. Only 46.6% of the companies said that their investment in China was profitable. This finding is, as far as one can see, unpleasant from a Swiss perspective, since one would expect that it would be easier for Taiwanese businesses to be successful on the local market: at least for them, the large divergence of cultures, one of the largest obstacles for foreign businesses, is not so clearly a setback.

A large majority (over three quarters) of the companies that replied to the Seco-survey mentioned in section 3.2.1 are planning on expanding their business or currently doing so. Several specified that they have **completed the infrastructure investment** and now intend to **widen the scope of their business**. They see the market as growing and promising. In the production sector, some companies plan to focus on the domestic market's potential while others are bidding on a growing demand for exports. The fast development of the service sector is seen as an opportunity for business to improve.

5 Trade economic and touristic promotion "Country advertising"

5.1 Foreign economic promotion instruments

The Chinese leadership regulates all the country's economic activities to the detail and since the state remains the owner of whole areas of the industry, it is also one of the most important actors of the economy. **Regular contact with the authorities at every level is thus crucial for Swiss companies established in China.** Further, the official representative of Switzerland – the Embassy in Beijing, the Consulate General in Shanghai and from the 2nd half of 2006 on also the newly established Consulate General in Guangzhou – has to take on a particular role in the arrangement or relief of such contracts.

Swiss Business Hub China (SBH China)

The SBH China is part of the worldwide "OSEC Business Network Switzerland" and has been operational since March 2002 in two locations – one at the Swiss Embassy in Beijing and the other at the Consulate General in Shanghai with a new branch to be established at the Consulate General in Guangzhou. The specially trained consular and local SBH-staff offer much needed services to Swiss SMEs in their endeavours of strengthening and developing their business relations with China

¹¹ Erwin Lüthi, former Director, Swiss Business Hub China, Beijing; "China Directory 2005", cf. chapter 72.

(services include: market and product analyses; search of distributors, representatives and import partners; individual consulting and coaching; reports on presentation and trade fairs). The high demand of Swiss businesses – particularly in a dynamic and growing market such as China – for the SBH's services and the diplomatic and advocating support provided by the Economic and Commercial section of the Embassy would require additional staff.

Location:Switzerland “China”

Following the growing importance of Sino-Swiss economic exchange, Location:Switzerland, the Swiss Government agency responsible for supporting inward investors, has commissioned the consultancy firm Generis AG, Schaffhausen, to manage the promotion of Switzerland as a business location to potential Chinese investors. Location:Switzerland “China” pursues business development activities in close consultation and collaboration with the diplomatic and consular missions in Beijing, Shanghai Hong Kong and will also cooperate with the newly established Consulate General in Guangzhou. The aim is to build on the firm Sino-Swiss relationships which have been established and raise awareness of Switzerland as a first-class business location among Chinese business owners, entrepreneurs and investors.

Swiss-Chinese Chamber of Commerce and SwissCham China

Swiss-Chinese Chamber of Commerce and SwissCham China are private organisations of associations registered in Switzerland and China respectively. Among their members are the leading Swiss companies in the trade, industry and financial sectors. The network consists of about 800 companies and individual members. The Swiss-Chinese Chamber of Commerce was first set up in Zurich in 1980 and established a branch in Beijing in 1995. The latter obtained the status of an independent chamber of commerce according to Chinese law in 2001. As a result, two national organizations are operated today with three regional branches in Switzerland (Zurich, Geneva, Lugano) and two in Beijing and Shanghai (a Guangzhou-chapter may open in 2006). Their purpose is to promote and support the global success of the Swiss business community in China. Simultaneously, SwissCham China assists a growing number of China-based enterprises in their dealings with Swiss partner companies.

The Sino-Swiss Partnership Fund (SSPF)

SSPF is a direct investment (venture capital) fund co-sponsored by the Swiss and Chinese Governments. It is managed by the Sino Swiss Venture Capital Company (SSVC), established between Seco and the China Development Bank (CDB). The purpose of the fund is to facilitate joint ventures between Swiss and Chinese enterprises in China. SSPF can invest up to CHF 5 million up to a maximum of 33% of the required investment in the form of equity, loans or in hybrid forms, in forex and local Chinese currency.

SOFI's China Competence Centre

SOFI is registering considerable interest for China from Swiss SME's. To respond to these needs, SOFI has established a "China Competence Centre" consisting of Chinese and Swiss experts with a long professional experience in emerging markets in Asia. The Centre maintains a wide network of counterparts throughout China and particularly in all major industrial zones (Beijing, Tianjin, Shanghai, Wuxi, Suzhou, Guangdong, Hong Kong).

5.2 Interest for Switzerland as a location for tourism, education and other services, potential for development

Presence Suisse

Swiss awareness in China is raised through a number of projects including cultural, artistic and architectural ones. The image that is being depicted is one of an innovating country placing values such as quality and well-being as key. **Switzerland enjoys a positive image in China** although slightly stereotypical. The goals of Presence Suisse are thus to bring further awareness and understanding of Switzerland to the population in China in order to create stronger relations while the country continues to gain importance in the global economy. Focus in the near future will be set on preparing for the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai.

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 28.84 million Chinese travelled abroad in 2004 (an

increase of 43% on the preceding year) and is expected to reach 100 million by 2020.¹² Therefore China is a key future market for the Swiss tourism industry. 117'216 visas were issued to Chinese citizens who spent 230'000 nights in Switzerland in 2004 (over twice as many as in 2003, although the negative effect of the SARS-crisis in that year must be taken into account). These numbers are expected to increase to around 150'000 visas and 300'000 nights in 2005. In this respect Switzerland's entry to the Schengen-Agreements, which should take effect on 1 January 2008 at the latest, is expected to be further beneficial: Swiss Tourism anticipates 800'000 Chinese overnights in Switzerland by 2009, overtaking the number of Japanese. Swiss Tourism was established in Beijing in 1998 and a second branch was opened in Shanghai this year, Guangzhou should follow next year. What is still seriously lacking to facilitate tourism is a **direct flight linking China and Switzerland**. Respective talks between a major Chinese carrier and the competent authorities and relevant airports are currently underway.

Switzerland was granted **Approved Destination Status (ADS)** by the Chinese Government in 2004. Following the implementation of the policy in September that year, there was a noticeable increase in accepting visa applications. However the realisation that this may have, important consequences for immigration policy, new checks and guidelines were put into place to reduce the risk of travellers remaining in Switzerland illegally.

Education

In 2002, the Swiss and the Chinese governments renewed their "Memorandum of Understanding" for **educational exchanges**, which gives 18 Chinese and 36 Swiss students the opportunity to study in the partner country. Though the (private) school sector has shown increasing interest in attracting Chinese students to their institutions, the overall number of student visa demands has gone down in recent years. This is partly due to the high costs, perceived limited benefit of studying abroad and bad publicity due to abuses which have taken place in some hotel and tourism management schools. Several initiatives to promote education in Switzerland will be focused on in the near future.

Other services

Another service that is increasingly demanded from the emerging middle-classes in China is **cosmetic surgery**. The lack of expertise in this field in China may increase the risk of failure, leading certain people to travel abroad for plastic surgery. South Korea is a popular destination in this respect, but Switzerland also evokes security, quality and well-being.

5.3 Interest for Switzerland as a location for investment, potential for development

Investment flows from China to Switzerland have so far been modest with Chinese capital investment mainly in trading companies and SMEs, notably in the service and hospitality industries. However, the acquisition of the Murten-based company Saia-Burgess (electronic devices, switches, motors, control components etc.) in late summer 2005 through Johnson Electrics Holdings, Ltd. Hong Kong, could pave the way mainland companies may go in the next years following the Chinese Government's Going abroad strategy. Switzerland's strengths as an investment location are promoted in China by Location Switzerland (www.locationswitzerland.ch, also presented in Chinese), the cantons and increasingly by the service sector. Location Switzerland: "China", who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations, assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively advertised with emerging globalizing Chinese companies as a location for international headquarters and business control centres. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden, which employs 20 persons in China for its promotional agency "Invest in Sweden". Like in other Asian countries Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

5.4 Interest for Switzerland as a financial location, potential for development

Switzerland's reputation as a financial location – as far as there is such a perception among the general public - is generally positive, especially with the Chinese Government, the National Bank and the regulatory bodies of the financial sector. A first successful round of bilateral financial consultations

¹² World Tourism Organisation

with relevant authorities took place in January 2005. Swiss experiences in international fight against financial criminality and illicit assets restitution were discussed among other topics. The leading Swiss banks, which have recently acquired minority participations in Chinese banks and insurance companies, regularly receive Chinese officials and financial sector professionals for trainings and know how exchange. Private banking is still prohibited in mainland China.

6 Useful internet Links (cf. Annexe 7)

7 Bilateral foreign economic policy agenda

7.1 Discrimination in trade in goods

7.1.1 General assessment

Following China's entry to the WTO and compliance with the organisation's regulations measures taken by the Chinese Government include tariff reductions, sequential market-opening measures in the sectors negotiated, as in particular improved access to the trading and distribution sector for foreign firms. However, many hitches still remain as pointed out below.

Tariff barriers ¹³

- Significant tariff reductions have been implemented according to China's WTO-commitments, however **import tariffs** remain high in certain sectors
- **Import duties** are calculated as a percentage of the CIF price of the goods; **consumption tax** ranges from 3-45% and is essentially applied to luxury goods; most goods are subject to 17% **VAT** with exceptions at 13%; and **anti-dumping duties** are imposed on foreign imports if they are considered to be sold too cheaply.

Non-tariff barriers ¹⁴

- Lack of **transparency and consistency at customs clearance**: lack of sufficient information available in English making it difficult to prepare the required documents; inconsistency between central policy and the local practices at different ports.
- **Customs value determination**: In some cases, Chinese customs officials aggressively use minimum or reference price lists or another company's import values to challenge import transaction values.
- Acquiring the **China Compulsory Certification mark** (required by 130 product types) involves a cumbersome process which demands an onsite inspection at the applicant's factory in Europe by an accredited Chinese CCC organisation at the applicant's costs.

Specific sectors

- **Luxury goods** – higher tariffs; 11-23% tariffs (bound rate of duty) on watches
- **Pharmaceuticals** – regulations on registration of medicine products and price policy change quite frequently, causing problems for manufacturers
- **Machinery** – import restrictions on machinery of a certain age, 6-15% tariff on machines

7.1.2 Public procurement

China's reform of the public procurement system started in the 1990s. The Government Procurement Law was promulgated on 29 June 2002, but it still lacks in consistency, coordination and transparency. Further, the existing regulatory framework is not in line with the principle of market economy: market access remains discriminatory against non-Chinese domestic companies. Besides, there is no clear definition of what "domestic goods" consist of. **Foreign partners would like to see China join the WTO Government Procurement Agreement (GPA)**. However, the country has not even started negotiations to become a member of the WTO GPA (though it has been an observer since 2002), doubting its own capacity to implement the agreement which may affect its economy.

¹³ *Economist Intelligence Unit, China Hand, 2005*

¹⁴ *European Business in China, Position Paper 2005*

7.2 Discrimination in trade in services

7.2.1 General assessment

China has followed the WTO market-opening measures over the past four years, but it has also maintained and set-up non-tariff barriers limiting market-entry to foreign companies in various service sectors.

Banking

- China is reaching the last stage of its five-year phase-in of banking services in the local market (according to its WTO-commitments).
- A number of non-tariff barriers continue to limit market access especially for smaller banks (regulations impose high and uneven operating capital requirements).

Insurance

- Though the past three years have seen many WTO-induced reforms in this sector, the rulemaking-process remains unclear and the insurance market access for foreign businesses is still highly restricted.
- Issues related to the establishment of branches are the most problematic: geographical expansion and unclear procedures and regulations for opening (sub-) branches cause uncertainties in business operations.
- Further issues include capital requirements – which remain high with an initial establishment of RMB 200 million (down from RMB 500 million) which is still higher than international norms – and rulemaking transparency.

Legal services

- China has set up ambiguous and cumbersome regulations (inconsistent with its WTO-commitments) regarding foreign law firms, creating obstacles to market-entry and unduly restricting their business scope.
- Such regulations include: lengthy examination procedures for application to open law firms and a three-year waiting period before opening the next representation office.

7.2.2 Public procurement

See above, section 7.1.2

7.3 Investments

Foreign investment in China has surged following China's WTO-accession, however certain sectors remain closed to investments by foreigners (e.g. telecoms). Swiss SMEs are positive about opportunities offered by Chinese market and its competitive production base. However, the lack of transparency and inconsistent implementation of relevant legislation and cumbersome administrative procedures can prove to be major challenges for SMEs considering investing in China.

7.4 Labour force

The labour market in China is highly rigid and there exist many restrictions on hiring non-local residents, even from other provinces. Visa and living permit application procedures for foreigners can be problematic; further, foreign passport holders are excluded from the social security system implying a high personal risk for foreigners not employed under "expatriate terms".

7.5 Intellectual Property

The extent of the counterfeit product market in China is immense, engendering high costs for companies in numerous industries. At its entry to the WTO, China pledged to honour all rules on the protection of copyrights, patents and trademarks as outlined in the TRIPS accord. For the past four years, China has been strengthening the legislation of the IPR regime and has by now brought most of its laws into line with TRIPS. However, the major IPR-problem stems from the lack of implementation

of relevant legislation. The enforcement of IPR rules in China is also inadequate and inefficient, penalties are too light, the judiciary is often not up to its task and local protectionism is rampant.

The following points list the most pressing issues:

- There is insufficient prosecution of producers of counterfeited goods.
- Penalties are too low and few counterfeiters are subject to criminal proceedings.
- There is no prosecution of the end-user.
- The regulatory environment is fragmented and the enforcement bodies lack power.
- The law is enforced too weakly through courts and judges who lack independence.
- There is unfair treatment of foreign (multinational) companies by local courts
- There is insufficient protection of information submitted when applying for a patent.

The Swiss industries most concerned so far have been the watch-making, textile-machinery, pharmaceutical and chemical industries.

7.6 Horizontal policy

Competition

- Many anti-competitive practices are not covered by current laws such as the Anti-Unfair Competition Law, the Price Law and the Foreign Trade Law.
- A final draft of the long-awaited Antimonopoly Law was submitted to the State Council this year and may be enacted by the National People's Congress in 2006.

Tax system

- Lacks transparency and requires further reform.

Administrative procedures

- Many items require administrative approval and often no clearly designated approval authority exists.
- Competences between authorities are not always clearly defined and transparent
- Approval criteria are often either not published or vague; even if all published criteria are met, there is still ample room for administrative discretion.

Rule of law

- The main problems regarding the rule of law in China are a weak enforcement of the law through courts, and the lack of independence of judges and government interference
- Further, indeterminate language of an important part of the economic legislation and problems in determining exact legal status on rules issued by Government make the running of business more complex.

Edgar Doerig

Annexes

Annexe 1: Structure of the Economy

Annexe 2: Essential Economic Data

Annexe 3: Trading Partners

Annexe 4: Bilateral Trade Switzerland –China 2004 / 2005 (Jan. – Sept.)

Annexe 5: Foreign Direct Investment

Annexe 6: List of main Swiss companies in China

Annexe 7: Useful internet links

China: Structure of the Economy

	2001	2002	2003	2004	YoY growth
Distribution of GDP (%)					
Primary Sector	15.2%	14.5%	14.6%	15.2%	6.3%
Secondary Sector	51.2%	51.7%	52.3%	53.0%	11.1%
Tertiary Sector	33.6%	33.7%	33.1%	31.8%	8.3%
(of which state sector)	n/a	n/a	n/a	n/a	n/a
	2001	2002	2003 *	2004 *	YoY growth
Distribution of Labor (%)					
Primary Sector	50.0%	50.0%	49.1%	47.0%	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	n/a
(of which state sector) *	11.2%	10.5%	9.7%	9.2%	n/a

ESSENTIAL ECONOMIC DATA

	2'001	2'002	2'003	2'004
GDP (USD billion) *	1'159	1'237	1'412	1'649
GDP per capita (USD)**	924	992	1'099	1'277
GDP growth (%) ***	7.5	8.0	9.3	9.5
CPI inflation (%) */ ***	0.7	-0.8	1.2	3.9
Unemployment rate				
Level - registered (Millions) *	6.9	7.7	8.0	N/A
Rate - registered in urban (%) **	3.6	4.0	4.3	4.2
Fiscal balance (% of GDP)	-2.6	-2.9	-3.1	-1.5 ****
Current account balance (% of GDP)	1.5	2.6	3.2	4.3 a)
Total External Debt (% of GDP)	12.8	11.6	14.1	13.9 ****
Debt-service ratio (% of exports)	6.5	5.2	4.9	n/a
Gross official reserves (minus imports, USD billion)	7.9	n/a	n/a	n/a

1 USD ≈ 8.28 CNY

Trading Partners of P.R. China

2003				
Rank	Exports to Country/ Region	Billion USD	Growth in % to a comparable previous period	
1	USA	92.47	32.2	
2	Hong Kong	76.29	30.5	
3	Japan	59.42	22.7	
4	Korea Rep.	20.10	29.4	
5	Germany	17.54	54.2	
6	Netherlands	13.50	48.3	
7	United Kingdom	10.82	34.3	
8	Taiwan	9.00	36.7	
9	Singapore	8.87	27.0	
10	France	7.30	79.1	
	Switzerland	0.84	31.7	
	EU-15	72.15	49.7	
	APEC	310.61	30.1	
	ASEAN	30.93	31.1	
	Total	438.37	34.6	

Rank	Imports from Country/ Region	Billion USD	Growth in % to a comparable previous period	
1	Japan	74.15	38.7	
2	Taiwan	49.36	29.7	
3	Korea Rep.	43.13	51.0	
4	USA	33.86	24.3	
5	Germany	24.34	48.3	
6	Malaysia	13.986	50.5	
7	Hong Kong	11.12	3.7	
8	Singapore	10.48	48.8	
9	Russia	9.73	15.7	
10	Thailand	8.83	57.6	
	Switzerland	2.68	31.7	
	EU-15	53.06	37.7	
	APEC	311.18	37.5	
	ASEAN	47.33	51.7	
	Total	412.84	39.9	

2004				
Rank	Exports to Country/ Region	Billion USD	Growth in % to a comparable previous period	
1	USA	124.95	35.1	
2	Hong Kong	100.88	32.3	
3	Japan	73.51	23.7	
4	Korea Rep.	27.82	38.4	
5	Germany	23.76	36.2	
6	Netherlands	18.52	37.2	
7	United Kingdom	14.97	38.3	
8	Taiwan	13.55	50.4	
9	Singapore	12.69	43.1	
10	France	9.92	36.0	
	Switzerland	1.51	79.3	
	Eu-25	107.16	36.9	
	APEC	416.43	34.1	
	ASEAN	42.90	38.7	
	Total	593.37	35.4	

Rank	Imports from Country/ Region	Billion USD	Growth in % to a comparable previous period	
1	Japan	94.37	27.3	
2	Taiwan	64.78	31.2	
3	Korea Rep.	62.25	44.3	
4	USA	44.68	31.9	
5	Germany	30.37	25.0	
6	Malaysia	18.17	29.9	
7	Singapore	14.00	33.5	
8	Russia	12.13	24.7	
9	Hong Kong	11.80	6.1	
10	Australia	11.55	58.3	
	Switzerland	3.62	35.0	
	Eu-25	70.12	28.8	
	APEC	419.31	34.7	
	ASEAN	62.98	33.1	
	Total	561.42	36.0	

January - September 2005				
Rank	Exports to Country/ Region	Billion USD	Growth in % to a comparable previous period	
1	USA	117.35	32.6	
2	Hong Kong	85.55	21.9	
3	Japan	61.77	18.8	
4	Korea Rep.	25.63	32.8	
5	Germany	22.99	40.3	
6	Netherlands	18.21	46.1	
7	United Kingdom	13.69	29.5	
8	Taiwan	11.94	27.2	
9	Singapore	11.80	31.8	
10	Italy	8.87	31.1	
	Switzerland	1.46	34.8	
	Eu-25	103.40	37.2	
	APEC	374.03	28.2	
	ASEAN	40.51	35.3	
	Total	546.42	31.3	

Rank	Imports from Country/ Region	Billion USD	Growth in % to a comparable previous period	
1	Japan	72.78	4.3	
2	Korea Rep.	55.74	22.1	
3	Taiwan	53.00	11.8	
4	USA	36.19	7.3	
5	Germany	22.00	-1.7	
6	Malaysia	14.39	8.5	
7	Singapore	12.04	20.3	
8	Australia	11.83	42.3	
9	Russia	11.64	25.7	
10	Thailand	10.05	20.1	
	Switzerland	2.85	7.7	
	Eu-25	54.38	3.3	
	APEC	355.68	15.8	
	ASEAN	54.03	18.8	
	Total	478.08	16.0	

Bilateral trade Switzerland - P.R. China, 2004

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		2003	2004			2003	2004			
1	Agricultural products	57'708'709	55'778'981	-3.34%	1.97%	12'158'860	21'055'758	73.17%	0.68%	-34'723'223
2	Energy carriers	583'657	253'026	-56.65%	0.01%	205'407	339'524	65.29%	0.01%	86'498
3	Textiles, apparel, shoes	632'159'947	678'250'347	7.29%	23.99%	34'898'167	46'872'231	34.31%	1.52%	-631'378'116
4	Paper, paper products, printed matter	10'727'173	13'756'418	28.24%	0.49%	13'054'088	19'073'538	46.11%	0.62%	5'317'120
5	Leather, rubber, plastics	134'809'365	150'360'669	11.54%	5.32%	32'619'153	38'874'103	19.18%	1.26%	-111'486'566
6	Chemicals, pharmaceuticals	260'286'782	287'695'837	10.53%	10.18%	367'895'930	497'986'066	35.36%	16.19%	210'290'229
7	Construction materials, ceramics, glass	25'309'787	33'292'552	31.54%	1.18%	10'703'325	12'472'415	16.53%	0.41%	-20'820'137
8	Metals and metal products	151'188'415	173'404'662	14.69%	6.13%	99'650'191	135'792'980	36.27%	4.41%	-37'611'682
9	Machinery, apparatus, electronics	576'952'339	719'043'161	24.63%	25.43%	1'404'555'402	1'567'179'381	11.58%	50.95%	848'136'220
10	Vehicles	21'047'918	34'693'005	64.83%	1.23%	11'439'844	4'997'677	-56.31%	0.16%	-29'695'328
11	Precision instruments, watches, jewellery	290'858'467	391'341'243	34.55%	13.84%	371'156'375	490'809'788	32.24%	15.96%	99'468'545
12	Furniture, toys	234'267'326	278'850'820	19.03%	9.86%	11'364'426	15'303'341	34.66%	0.50%	-263'547'479
13	Precious metal, precious stones, gemstones	16'770'261	4'318'907	-74.25%	0.15%	90'116'778	224'760'437	149.41%	7.31%	220'441'530
14	Objects of art and antiques	1'248'980	6'068'716	385.89%	0.21%	198'488	227'149	14.44%	0.01%	-5'841'567
	Total	2'413'919'126	2'827'108'344	17.12%	100%	2'460'016'434	3'075'744'388	25.03%	100%	248'636'044

Bilateral trade Switzerland - Hongkong, 2004

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		2003	2004			2003	2004			
1	Agricultural products	1'213'171	852'963	-29.69%	0.10%	48'356'682	53'954'787	11.58%	1.32%	53'101'824
2	Energy carriers	.	.	N/A	N/A	155'771	107'496	-30.99%	0.00%	N/A
3	Textiles, apparel, shoes	51'809'297	59'171'455	14.21%	7.20%	95'170'395	106'734'139	12.15%	2.62%	47'562'684
4	Paper, paper products, printed matter	1'261'275	2'066'843	63.87%	0.25%	13'106'727	13'099'189	-0.06%	0.32%	11'032'346
5	Leather, rubber, plastics	3'475'652	4'137'838	19.05%	0.50%	41'075'722	43'661'632	6.30%	1.07%	39'523'794
6	Chemicals, pharmaceuticals	5'697'442	3'678'778	-35.43%	0.45%	364'950'820	354'101'156	-2.97%	8.69%	350'422'378
7	Construction materials, ceramics, glass	1'203'595	1'796'111	49.23%	0.22%	10'980'056	12'995'391	18.35%	0.32%	11'199'280
8	Metals and metal products	8'622'558	9'772'027	13.33%	1.19%	48'068'835	55'428'425	15.31%	1.36%	45'656'398
9	Machinery, apparatus, electronics	94'134'651	149'542'101	58.86%	18.20%	328'149'738	389'364'093	18.65%	9.56%	239'821'992
10	Vehicles	214'531	865'962	303.65%	0.11%	2'657'341	550'749	-79.27%	0.01%	-315'213
11	Precision instruments, watches, jewellery	312'866'480	285'802'546	-8.65%	34.79%	1'762'250'738	1'988'384'342	12.83%	48.82%	1'702'581'796
12	Furniture, toys	5'205'674	5'107'112	-1.89%	0.62%	36'694'021	34'708'616	-5.41%	0.85%	29'601'504
13	Precious metal, precious stones, gemstones	151'081'139	294'116'064	94.67%	35.80%	1'241'944'854	1'010'539'750	-18.63%	24.81%	716'423'686
14	Objects of art and antiques	11'934'305	4'585'202	-61.58%	0.56%	8'625'511	9'061'031	5.05%	0.22%	4'475'829
	Total	648'719'770	821'495'002	26.63%	100%	4'002'187'211	4'072'690'796	1.76%	100%	3'251'195'794

Bilateral trade Switzerland - China incl. Hongkong, 2004

	Total	3'062'638'896	3'648'603'346	19.1%	100%	6'462'203'645	7'148'435'184	10.6%	100%	3'499'831'838
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Bilateral trade Switzerland - P.R. China, January - September 2005

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2004	Jan-Sep 2005			Jan-Sep 2004	Jan-Sep 2005			
1	Agricultural products	42'199'080	50'201'222	18.96%	2.08%	17'651'735	17'718'797	0.38%	0.75%	-32'482'425
2	Energy carriers	.	35456	N/A	0.00%	263183	409923	55.76%	0.02%	374'467
3	Textiles, apparel, shoes	534'368'104	595'498'781	11.44%	24.62%	34'459'073	35'579'564	3.25%	1.51%	-559'919'217
4	Paper, paper products, printed matter	10'221'761	18'844'930	84.36%	0.78%	13'887'430	15'860'890	14.21%	0.67%	-2'984'040
5	Leather, rubber, plastics	114'274'801	127'763'689	11.80%	5.28%	30'253'669	33'014'260	9.12%	1.40%	-94'749'429
6	Chemicals, pharmaceuticals	211'507'068	339'808'115	60.66%	14.05%	377'322'406	498'864'133	32.21%	21.10%	159'056'018
7	Construction materials, ceramics, glass	25'174'682	32'080'056	27.43%	1.33%	10'884'745	6'117'197	-43.80%	0.26%	-25'962'859
8	Metals and metal products	134'390'778	127'017'308	-5.49%	5.25%	93'242'649	118'840'811	27.45%	5.03%	-8'176'497
9	Machinery, apparatus, electronics	560'276'290	540'541'225	-3.52%	22.35%	1'174'573'452	1'120'049'126	-4.64%	47.38%	579'507'901
10	Vehicles	26'405'880	33'073'667	25.25%	1.37%	4'142'286	4'745'776	14.57%	0.20%	-28'327'891
11	Precision instruments, watches, jewellery	295'265'554	333'958'208	13.10%	13.81%	333'609'770	400'696'216	20.11%	16.95%	66'738'008
12	Furniture, toys	211'447'851	213'724'040	1.08%	8.84%	9'829'763	16'732'576	70.22%	0.71%	-196'991'464
13	Precious metal, precious stones, gemstones	3'831'911	2'611'367	-31.85%	0.11%	167'563'169	94'533'434	-43.58%	4.00%	91'922'067
14	Objects of art and antiques	5'642'858	3'213'056	-43.06%	0.13%	200932	873008	334.48%	0.04%	-2'340'048
	Total	2'175'006'618	2'418'371'120	11.19%	100%	2'267'884'262	2'364'035'711	4.24%	100%	-54'335'409

Bilateral trade Switzerland - Hongkong, January - September 2005

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2004	Jan-Sep 2005			Jan-Sep 2004	Jan-Sep 2005			
1	Agricultural products	695895	666186	-4.27%	0.09%	43'061'925	22'913'921	-46.79%	0.83%	22'247'735
2	Energy carriers	.	585	N/A	N/A	88174	111187	26.10%	0.00%	110'602
3	Textiles, apparel, shoes	47'241'088	34'856'464	-26.22%	4.51%	76'887'621	81'147'947	5.54%	2.93%	46'291'483
4	Paper, paper products, printed matter	1'543'686	1'816'000	17.64%	0.24%	10'202'814	5'490'434	-46.19%	0.20%	3'674'434
5	Leather, rubber, plastics	3'044'765	4'023'674	32.15%	0.52%	32'645'373	32'688'702	0.13%	1.18%	28'665'028
6	Chemicals, pharmaceuticals	2'309'876	9'261'001	300.93%	1.20%	277'351'619	225'378'063	-18.74%	8.13%	216'117'062
7	Construction materials, ceramics, glass	1'369'431	949329	-30.68%	0.12%	9'243'850	9'811'148	6.14%	0.35%	8'861'819
8	Metals and metal products	7'502'235	7'627'683	1.67%	0.99%	41'665'341	39'566'930	-5.04%	1.43%	31'939'247
9	Machinery, apparatus, electronics	94'709'493	147'625'731	55.87%	19.11%	290'983'211	259'082'205	-10.96%	9.35%	111'456'474
10	Vehicles	844130	918479	8.81%	0.12%	420824	1'268'456	201.42%	0.05%	349'977
11	Precision instruments, watches, jewellery	209'756'638	222'479'751	6.07%	28.79%	1'411'141'474	1'503'181'653	6.52%	54.25%	1'280'701'902
12	Furniture, toys	3'315'324	4'235'417	27.75%	0.55%	27'435'851	23'655'487	-13.78%	0.85%	19'420'070
13	Precious metal, precious stones, gemstones	200'433'355	327'290'509	63.29%	42.36%	790'730'145	556'094'738	-29.67%	20.07%	228'804'229
14	Objects of art and antiques	3'517'286	10'925'062	210.61%	1.41%	7'519'841	10'673'639	41.94%	0.39%	-251'423
	Total	576'283'202	772'675'871	34.08%	100%	3'019'378'063	2'771'064'510	-8.22%	100%	1'998'388'639

Bilateral trade Switzerland - P.R. China incl. Hongkong, January - September 2005

	Total	2'751'289'820	3'191'046'991	15.98%	100%	5'287'262'325	5'135'100'221	-2.88%	100%	1'944'053'230
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China: Foreign Direct Investment

Rank	Country	FDI (mio. USD) 2003	FDI (mio. USD) 2004	Share (%) 2004	Variation (%) year on year	FDI (mio. USD) Jan-Apr 2005	Share (%) Jan-Apr 2005	Variation (%) year on year
1	Hong Kong	17'700	18'998	31.33%	7.33%	4'632	26.51%	-14.00%
2	Virgin Islands	5'777	6'730	11.10%	16.50%	2'844	16.28%	39.58%
3	USA	4'199	3'941	6.50%	-6.14%	926	5.30%	-21.01%
4	Japan	5'054	5'452	8.99%	7.87%	2'049	11.73%	26.46%
5	Taiwan	3'377	3'117	5.14%	-7.70%	829	1.03%	4.75%
6	Korea South	4'489	6'248	10.31%	39.18%	1'749	10.01%	10.21%
7	Singapore	2'058	2'008	3.31%	-2.43%	539	3.08%	-0.90%
8	Germany	857	1'058	1.75%	23.45%	323	1.85%	3.05%
9	UK	742	793	1.13%	6.87%	357	2.04%	81.62%
10	France	604	657	1.08%	8.77%	187	1.07%	17.95%
	E.U.-15	3'930	4'241	6.99%	7.91%	1'337	7.66%	6.50%
	Switzerland	181	203	0.33%	12.15%	53	N/A	-48.13%
	Austria		98	0.16%	N/A	20	0.11%	51.46%
	Total	53'505	60'600	100.00%	13.26%	17'470	100%	N/A

Rank	Country	FDI (mio. USD) Jan-Sep 2005	Share (%) Jan-Sep 2005	Variation (%) year on year
1	Hong Kong	12'421	28.72%	N/A
2	Virgin Islands	7'077	16.36%	N/A
3	Japan	4'637	10.72%	N/A
4	Korea South	3'615	8.36%	N/A
5	USA	2'149	4.97%	N/A
6	Singapore	1'623	3.75%	N/A
7	Taiwan	1'577	3.65%	N/A
8	Cyman Islands	1'453	3.36%	N/A
9	Germany	1'264	2.92%	N/A
10	Samoa	1'092	2.53%	N/A
	E.U.-25	3'760	8.69%	N/A
	Switzerland	126	0.29%	N/A
	ASEAN	2'235	5.17%	N/A
	Total	43'247	100%	N/A

List of main Swiss companies in China

<u>Company</u>	<u>Business Scope</u>
Syngenta (China) Investment Co., Ltd.	Agriculture
Credit Suisse Group	Banking and related services
UBS AG	Banking and related services
Zürcher Kantonalbank	Banking and related services
Clariant (China) Ltd	Chemicals and chemical products
Sandoz China	Chemicals and chemical products
Lonza (China) Investment Co., Ltd	Chemicals and chemical products
Geberit Plumbing Technology (Shanghai) Co. Ltd.	Construction, civil engineering, environmental protection
Holcim Beijing Rep. Office	Construction, civil engineering, environmental protection
Sarnafil Waterproofing Systems (Shanghai) Ltd.	Construction, civil engineering, environmental protection
Firmenich Aromatic (China) Co., Ltd.	Food products and beverages; Chemicals and chemical products
Nestlé (China) Ltd.	Food products and beverages; Other services
Ascom Asia Pacific Ltd.,	Information technology and information processing equipment
Logitech Electronics Trading	Information technology and information processing equipment
Unaxis (Shanghai) Co. Ltd.	Information technology and information processing equipment
Swiss Reinsurance Company	Insurance and related services
Winterthur Insurance (Asia) Ltd.	Insurance and related services
Zurich Financial Services	Insurance and related services
Kuehne & Nagel Ltd.	International integrated forwarding logistics services, supply chain
Panalpina China Ltd.	International integrated forwarding logistics services, supply chain
ABB (China) Ltd.	Machinery and equipment , Other services
Agie Charmilles China (Shanghai) Ltd.	Machinery and equipment , Other services
Bystronic Co., Ltd. (Shanghai)	Machinery and equipment , Other services
Feintool (Chongqing) technology Co., Ltd	Machinery and equipment , Other services
Huber + Suhner (Shanghai) Co., Ltd.	Machinery and equipment , Other services
Luwa Air Engineering (Shanghai) Ltd.	Machinery and equipment , Other services
Rieter Textile Systems (Shanghai) Co., Ltd	Machinery and equipment , Other services
StarragHeckert Engineering (Beijing) Co., Ltd	Machinery and equipment , Other services
Sulzer Pumps (China) Ltd.	Machinery and equipment , Other services
Mettler-Toledo Instruments (Shanghai) Co., Ltd	Medical, precision and optical instruments; Other manufacturing
Shanghai CIBA Vision Contact Lenses Co. Ltd.	Medical, precision and optical instruments; Other manufacturing
Beijing Zehnder Radiators Co., Ltd.	Metal and non-metallic products; Machinery and equipment; other services
Franke (China) Kitchen System Co., Ltd.	Metal and non-metallic products; Machinery and equipment; other services
Georg Fischer Ltd.	Metal and non-metallic products; Machinery and equipment; other services
Hilti (China) Ltd.	Metal and non-metallic products; Machinery and equipment; other services
Synthes	Metal and non-metallic products; Machinery and equipment; other services
SGS-CSTC Standards Technical Services Co., Ltd.	Other services
Beijing Novartis Pharma Ltd.	Pharmaceutical products
Givaudan	Pharmaceutical products
Roche R&D Center (China) Ltd.	Pharmaceutical products
Landis & Gyr Metering (zhuhai) Ltd.	Power generation and distribution
Beijing Ringier International Advertising Co., Ltd.	Publishing, printing and reproduction of recorded sound, video and data media
China Banknote Sicpa Security Ink Co., Ltd.	Publishing, printing and reproduction of recorded sound, video and data media
Saurer Textile Systems (Suzhou) Co., Ltd.	Textiles, apparel, leather, furs, footwear
Glencore Asia Ltd.	Trading
Netstal Singapore Pte. Ltd	Trading
China Schindler Elevator Co., Ltd.	Vehicles, lifting and handling equipment, railways
Shanghai SMH Watch Service Center Co.	Watches and clocks; Watch repair

Organs composing the State Council

Ministries

Ministry of Commerce	http://english.mofcom.gov.cn
Ministry of Commerce - FDI	http://www.fdi.gov.cn/
Ministry of Finance	http://www.mof.gov.cn/english/english.htm
Ministry of Foreign Affairs	http://www.fmprc.gov.cn/eng/default.htm

Commissions

National Development and Reform Commission	http://en.ndrc.gov.cn/
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Other

National Audit Office	http://www.cnao.gov.cn/
People's Bank of China	http://www.pbc.gov.cn/english/

Organs directly under the State Council

General Administration of Customs (only in Chinese language)	http://www.customs.gov.cn/Portal0/
National Bureau of Statistics of China	http://www.stats.gov.cn/english/
State Administration for Industry and Commerce (only in Chinese language)	http://www.saic.gov.cn/
State Administration of Taxation (only in Chinese language)	http://www.chinatax.gov.cn/
State Food & Drug Administration	http://www.sfda.gov.cn/eng/
State Intellectual Property Office	http://www.sipo.gov.cn/sipo_English/default.htm

Institutions directly under the State Council

China Banking Regulatory Commission	http://www.cbrc.gov.cn/english/index.htm
China Insurance Regulatory Commission (only in Chinese language)	http://www.circ.gov.cn/
China Securities Regulatory Commission	http://www.csrc.gov.cn/en/homepage/index_en.jsp
Development Research Centre of the State Council (only in Chinese language)	http://www.drc.gov.cn/
Xinhua News Agency	http://www.chinaview.cn/ ; http://www.french.xinhuanet.com/

Further useful www-sites

China Chamber of International Commerce Beijing (CCOIC Beijing)	http://www.ccpitbj.com/english/site/siteindex/
China Council for the Promotion of International Trade	http://www.ccpit.org/
Swiss Business Hub China News Update in association with China Economic Review	http://chinaeconomicreview.com/communities/sendmail.php?comm=sbh

Chamber of Commerce

American Chamber of Commerce in China (AmCham)	www.amcham-china.org.cn
Austrian Chamber of Commerce in China (WKO)	www.wko.at
British Chamber of Commerce in China (BCCC)	www.britcham.org
Canada China Business Council (CCBC)	www.ccbc.com
China - Australia Chamber of Commerce (AustCham)	www.austcham.org
China - Italy Chamber of Commerce (CCIC)	www.cameraitacina.com
European Union Chamber of Commerce in China (EUCCC)	www.euccc.com.cn
French Chamber of Commerce and Industry in China (CCIFC)	www.ccifc.org
German Chamber of Commerce in China (GCCC)	www.ahk-china.org
Hong Kong Chamber of Commerce in China (HKCCC)	www.hkccc.com.cn
Swiss Business Council in Hong Kong	www.swiss-biz.org
Swiss Chinese Chamber of Commerce Beijing	www.bei.swisscham.org
Swiss Chinese Chamber of Commerce in Switzerland	www.sccc.ch
Swiss Chinese Chamber of Commerce Shanghai	www.sha.swisscham.org

Swiss governmental organisations

Osec Business Network Switzerland	www.osec.ch
State Secretariat for Economic Affairs (Seco)	www.seco.admin.ch
Swiss Business Hub China (SBH China)	http://www.osec.ch/laenderseite/cn:internal&action=buildframes.action
Swiss Export Risk Guarantee (ERG)	http://www.swiss-erg.com/d/index.shtml
Swiss Organisation for Facilitating Investments (SOFI)	www.sofi.ch

International and other governmental organisations

Asian Development Bank (ADB)	http://www.adb.org/PRC/default.asp
Das Auswärtige Amt der Bundesrepublik Deutschland	http://www.auswaertiges-amt.de/www/de/laenderinfos/laender/laender_ausgabe.html?type_id=12&land_id=32
International Monetary Fund (IMF)	http://www.imf.org/external/country/CHN/index.htm
Organisation for Economic Co-operation and Development (OECD)	http://www.oecd.org/infobycountry/0,2646,en_2649_201185_1_70342_119656_1_1.00.html